SIPHUHLISA NGOLIMO,
NGAMAHLATHI NAMANZI

Engcobo Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity	The entity functions as a local municipality, established under paragraph 151 of the constitution of the Republic of South Africa.
Nature of business and principal activities	Engcobo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998). The municipality's operations are governed by: - Municipal Finance Management Act (No 56 of 2003) - Municipal Structures Act (No 117 of 1998) - Municipal Systems Act (No 32 of 2000) and various other acts and regulations
The following is included in the scope of operation	The following principal activities of the municipality are: Provide democratic activities and accountable government Ensure sustainable service delivery to communities Provide social and economic development Provide basic service to the community

Executive committee

Mayor	S Zangqa
	S Mbolo, Speaker
	N Macingwane, Chief Whip
Councillors	B Setheni, Corporate Services
	N Macingwane, Infrastructure
	M Mpoyi, SPU
	NN Mgidi, Community Services
	K Bizana, Finance
	F Mntabeko, Waste and Refuse
	MS Tunce, Ward1
	Z Jabanga, Ward 2
	S Noludwe, Ward 3
	EM Macingwane, Ward 4
	N Hokwana, Ward 5
	TS Mbekeni, Ward 6
	NM Sifanqala, Ward 7
	S Ngxangu, Ward 8
	S Guma, Ward 9
	NN Lilane, Ward 10
	N Yalezo, Ward 11
	S Sirataza, Ward 12
	N Nyudwane, Ward 13
	A Gqolontshi, Ward 14
	ZA Makhasi, Ward 16
	S Lobi, Ward 17
	NE Ngwangwa, Ward 18
	A Mzolisa, Ward 19
	C Hlazo, Ward 20
	S Marenene
	N Tolbhadi
	BM Gqitiyeza
	WS Mafufu
	S Xuma

General Information

	SL Zondeka T Daniel NAN Dayisi M Sobantu M Mbenyane
Grading of local authority	Grade 3
Accounting Officer (Municipal Manager)	M Moyo
Chief Finance Officer (CFO)	NF Siwahla
Registered office	58 Union Street Engcobo 5050
Postal address	PO Box 24 Engcobo 5050
Bankers	First National Bank
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	Various
Telephone	047 548 5600
Fax	047 548 1078

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The reports and statements set out below comprise the annual financial statements presented to the Council:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Department of Local Government and Traditional Affairs for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Department of Local Government and Traditional Affairs has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

The annual financial statements set out on pages 5 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

M Moyo (Municipal Manager)

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality is engaged in Engcobo Local Municipality is a South African Category B and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 406 655 511 and that the municipality's total assets exceed its liabilities by R 406 655 511.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Auditors

The Auditor General of South Africa will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Notes	30 June 2019	30 June 2018 Restated*
Assets			
Non-Current Assets			
Investment property	2	8 484 632	8 676 655
Property, plant and equipment	3	391 909 599	392 704 444
Intangible assets	4	1 579 299	1 398 823
Heritage assets	5	2 406 511	2 406 511
		404 380 041	**405 186 433**
Current Assets			
Receivables from exchange transactions	6	348 752	239 457
Receivables from non-exchange transactions	7	1 250 235	1 381 505
VAT receivable	8	1 791 351	4 300 480
Cash and cash equivalents	9	49 062 033	81 995 691
		52 452 371	**87 917 133**
Total Assets		**456 832 412**	**493 103 566**
Liabilities			
Non-Current Liabilities			
Employee benefit obligation	10	2 766 293	2 019 708
Provisions	11	22 657 164	22 403 499
		25 423 457	**24 423 207**
Current Liabilities			
Payables from exchange transactions	12	18 061 114	23 066 320
Payables from non-exchange	13	394 929	180 933
Employee benefit obligation	10	442 551	456 880
Unspent conditional grants and receipts	14	1 241 039	1 956 056
Provisions	11	4 613 811	3 327 636
		24 753 444	**28 987 825**
Total Liabilities		**50 176 901**	**53 411 032**
Net Assets		**406 655 511**	**439 692 534**
Accumulated surplus		406 655 511	439 692 534

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	30 June 2019	30 June 2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	15	1 043 604	960 597
Rental of facilities and equipment	16	162 690	266 050
Interest earned on outstanding debtors	16	603 459	499 980
Licenses and permits	16	2 340 558	1 958 848
Other income	17	1 097 930	1 307 010
Interest received	18	5 615 196	6 372 104
Actuarial gains	10	-	103 419
Total revenue from exchange transactions		**10 863 437**	**11 468 008**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	3 782 576	3 920 799
Transfer revenue			
Government grants & subsidies	20	175 270 854	195 122 113
Fines	16	423 300	1 215 480
Total revenue from non-exchange transactions		**179 476 730**	**200 258 392**
Total revenue	16	**190 340 167**	**211 726 400**
Expenditure			
Employee cost	21	(76 826 975)	(66 302 048)
Remuneration of councillors	22	(15 430 079)	(14 759 989)
Depreciation and amortisation	23	(40 113 598)	(42 229 018)
Impairment losses	24	(198 131)	-
Finance costs	25	(1 914 729)	(211 871)
Hire of equipment	26	(1 461 617)	(703 951)
Debt Impairment	27	(2 315 826)	(2 334 571)
Contracted services	28	(23 080 279)	(18 556 660)
Transfers and subsidies	29	(5 091 261)	(3 698 182)
Loss on disposal of assets	30	(540 542)	(1 364 864)
Actuarial losses	10	(633 510)	-
Operational costs	31	(55 785 870)	(53 191 096)
Total expenditure		**(223 392 417)**	**(203 352 250)**
(Deficit) surplus for the year		**(33 052 250)**	**8 374 150**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	434 471 231	434 471 231
Prior year adjustments	(3 152 845)	(3 152 845)
Balance at 01 July 2017 as restated*	**431 318 386**	**431 318 386**
Changes in net assets		
Surplus for the year previously stated	8 505 195	8 505 195
Prior year adjustment	(131 047)	(131 047)
Surplus for the year re-stated	8 374 148	8 374 148
Balance at 01 July 2018 as restated	**439 707 761**	**439 707 761**
Changes in net assets		
Surplus for the year	(33 052 250)	(33 052 250)
Total changes	(33 052 250)	(33 052 250)
Balance at 30 June 2019	**406 655 511**	**406 655 511**

Note(s)

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	30 June 2019	30 June 2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		5 122 721	6 800 823
Grants		174 555 837	182 603 669
Other receipts		4 205 876	4 850 807
		183 884 434	194 255 299
Payments			
Employee costs		(89 807 857)	(81 248 875)
Suppliers		(90 882 918)	(52 618 902)
Finance costs		-	(13 859 086)
		(180 690 775)	(147 726 863)
Net cash flows from operating activities	35	**3 193 659**	**46 528 436**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(41 065 804)	(57 907 047)
Proceeds from sale of property, plant and equipment	3	139 860	-
Purchase of other intangible assets	4	(701 637)	(361 005)
Finance costs		(119 485)	-
Net cash flows from investing activities		**(41 747 066)**	**(58 268 052)**
Cash flows from financing activities			
Finance lease payments		-	(35 218)
Interest		5 619 749	6 372 104
Net cash flows from financing activities		**5 619 749**	**6 336 886**
Net increase/(decrease) in cash and cash equivalents		**(32 933 658)**	**(5 402 730)**
Cash and cash equivalents at the beginning of the year		81 995 691	87 398 417
Cash and cash equivalents at the end of the year	9	**49 062 033**	**81 995 687**

* See Note 39

Engcobo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 135 914	-	**1 135 914**	1 043 604	**(92 310)**	
Rental of facilities and equipment	242 571	-	**242 571**	162 690	**(79 881)**	
Interest earned on outstanding debtors	-	-	**-**	603 459	**603 459**	A1
Licenses and permits	1 900 000	-	**1 900 000**	2 340 558	**440 558**	A2
Other revenue	1 150 905	-	**1 150 905**	1 097 930	**(52 975)**	A3
Interest received - investment	7 500 000	-	**7 500 000**	5 615 196	**(1 884 804)**	A4
Total revenue from exchange transactions	**11 929 390**	**-**	**11 929 390**	**10 863 437**	**(1 065 953)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 279 211	-	**4 279 211**	3 782 576	**(496 635)**	A5
Transfer revenue						
Government grants & subsidies	222 149 000	(4 000 000)	**218 149 000**	175 270 854	**(42 878 146)**	A6
Fines	661 829	-	**661 829**	423 300	**(238 529)**	A7
Total revenue from non-exchange transactions	**227 090 040**	**(4 000 000)**	**223 090 040**	**179 476 730**	**(43 613 310)**	
Total revenue	**239 019 430**	**(4 000 000)**	**235 019 430**	**190 340 167**	**(44 679 263)**	
Expenditure						
Employee costs	(75 464 489)	-	**(75 464 489)**	(76 826 975)	**(1 362 486)**	A8
Remuneration of councillors	(15 621 260)	-	**(15 621 260)**	(15 430 079)	**191 181**	
Depreciation and amortisation	(45 760 000)	-	**(45 760 000)**	(40 113 598)	**5 646 402**	A9
Impairment loss/ Reversal of impairments	-	-	**-**	(198 131)	**(198 131)**	A9
Finance costs	(200 000)	-	**(200 000)**	(1 914 729)	**(1 714 729)**	
Hire of equipment	(1 461 617)	-	**(1 461 617)**	(1 461 617)	**-**	
Debt Impairment	(2 500 000)	-	**(2 500 000)**	(2 315 826)	**184 174**	
Contracted Services	(23 256 590)	-	**(23 256 590)**	(23 080 279)	**176 311**	
Transfers and Subsidies	(5 188 542)	-	**(5 188 542)**	(5 091 261)	**97 281**	
Operational costs	(45 310 911)	-	**(45 310 911)**	(55 785 870)	**(10 474 959)**	A10
Total expenditure	**(214 763 409)**	**-**	**(214 763 409)**	**(222 218 365)**	**(7 454 956)**	
Operating deficit	**24 256 021**	**(4 000 000)**	**20 256 021**	**(31 878 198)**	**(52 134 219)**	
Loss on disposal of property, plant and equipment	-	-	**-**	(540 542)	**(540 542)**	A11
Actuarial gains/losses	-	-	**-**	(633 510)	**(633 510)**	A12
	-	**-**	**-**	**(1 174 052)**	**(1 174 052)**	
Surplus/ (Deficit)	**24 256 021**	**(4 000 000)**	**20 256 021**	**(33 052 250)**	**(53 308 271)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**24 256 021**	**(4 000 000)**	**20 256 021**	**(33 052 250)**	**(53 308 271)**	

	Approved budget	Adjustment	Final Budget	Actual amount	Difference between final budget and actual	
Capital expenditure	(91 722 000)	4 000 000	87 722 000	40 561 136	41 376 978	A13

Engcobo Local Municipality

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
30 June2019											
Financial Performance											
Property rates	4 279 211	-	4 279 211	-		4 279 211	3 782 576		(496 635)	88 %	88 %
Service charges	1 135 914	-	1 135 914	-		1 135 914	1 043 604		(92 310)	92 %	92 %
Investment revenue	7 500 000	-	7 500 000	-		7 500 000	5 615 196		(1 884 804)	75 %	75 %
Transfers recognised	222 149 000	(4 000 000)	218 149 000	-		218 149 000	175 270 854		(42 878 146)	80 %	79 %
Other own revenue	3 955 305	-	3 955 305	-		3 955 305	4 627 937		672 632	117 %	117 %
Total revenue (excluding capital transfers and contributions)	**239 019 430**	**(4 000 000)**	**235 019 430**	**-**		**235 019 430**	**190 340 167**		**(44 679 263)**	**81 %**	**80 %**
Employee costs	(73 727 280)	-	(73 727 280)	-	(1 737 209)	(75 464 489)	(76 826 975)	-	(1 362 486)	102 %	104 %
Remuneration of councillors	(15 621 260)	-	(15 621 260)	-	-	(15 621 260)	(15 430 079)	-	191 181	99 %	99 %
Debt impairment	(2 500 000)	-	(2 500 000)			(2 500 000)	(2 315 826)	-	184 174	93 %	93 %
Depreciation and asset impairment	(45 760 000)	-	(45 760 000)			(45 760 000)	(40 311 729)	-	5 448 271	88 %	88 %
Finance charges	(200 000)	-	(200 000)	-	-	(200 000)	(1 914 729)	-	(1 714 729)	957 %	957 %
Transfers and grants	(4 000 000)	-	(4 000 000)	-	(1 188 542)	(5 188 542)	(5 091 261)	-	97 281	98 %	127 %
Other expenditure	(72 954 870)	-	(72 954 870)	-	2 925 751	(70 029 119)	(81 501 818)	-	(11 472 699)	116 %	112 %
Total expenditure	**(214 763 410)**	**-**	**(214 763 410)**	**-**	**-**	**(214 763 410)**	**(223 392 417)**	**-**	**(8 629 007)**	**104 %**	**104 %**
Surplus/(Deficit)	**24 256 020**	**(4 000 000)**	**20 256 020**	**-**		**20 256 020**	**(33 052 250)**		**(53 308 270)**	**(163)%**	**(136)%**
Surplus/(Deficit) for the year	**24 256 020**	**(4 000 000)**	**20 256 020**	**-**		**20 256 020**	**(33 052 250)**		**(53 308 270)**	**(163)%**	**(136)%**
Capital expenditure and funds sources											
Total capital expenditure	(85 938 114)	4 000 000	(81 938 114)	-		(81 938 114)	(42 079 384)		39 858 730	51 %	49 %

Accounting Policies

1. BASIS OF ACCOUNTING

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Critical judgements, estimates and assumptions

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that these assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list municipality specific variables, together with economic factors such as exchange rates inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on the history of payments made for municipal services over the last twelve months.

Provisions and contingencies

The Landfill Site Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the statement of financial position date at a risk free rate which is currently 6.25%

The asset is measured using the cost model:
Subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

If the adjustment results in an addition to the cost of the asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Useful lives of property, plant and equipment

The useful lives of assets are based on management’s estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management’s judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time. It is a subjective estimate based on management’s experience.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	25 - 50 years
Braai facilities	5 years
Park furniture	15 years
Water tanks	20 years
Fences, gates and walls	25 years
Lapas and ablutions	30 years
Bridges and stormwater	50 years
Swimming pool	30 years
Internal roads and parking	30 years

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- All properties held to earn market related rentals or for capital appreciation, or for both and are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.
- Land held without determined future use.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	3 - 50 years
Buildings	25 - 50 years
Recreational facilities	25 -30 years
Community halls	25 - 50 years
Libraries	25 - 30 years
Machinery and equipment	5 years
Transport Assets	5 years
Furniture and office equipment	10 years
Computer equipment	5 years
Memorials and statues	Indefinite life
Museums	Indefinite life
Heritage sites	Indefinite life
Artworks	Indefinite life
Finance lease assets	5 years
Office equipment	5 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Accounting Policies

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	5-15 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Accounting Policies

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of a municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of a municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of a municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost
Cash and bank	Financial asset measured at amortised cost
Short term deposits (call accounts)	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease liability	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Accounting Policies

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the municipality reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipality adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the municipality obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the municipality directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various municipalities that are not under common control and use those assets to provide benefits to employees of more than one municipality, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus .

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the municipality consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Commitments

Items are classified as commitments when an municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another municipality without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/06/30 to 2019/06/30.

The budget for the economic municipality includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.26 Recovery of unauthorised, irregular, fruitless and wasteful expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable.The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

1.27 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
b) those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements.

1.28 New Standards and Interpretations

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods. The municipality does not intend to early adopt this standards.

Title	GRAP Standard	Effective
Seperate Financial Statements	GRAP 34	No effective date has been determined by the Minister of Finance
Investments in Associates and Joint Ventures	GRAP 36	No effective date has been determined by the Minister of Finance
Joint Arrangements	GRAP 37	No effective date has been determined by the Minister of Finance
Disclosure of Interests in Other Entities	GRAP 38	No effective date has been determined by the Minister of Finance
Financial Instruments	GRAP 104	No effective date has been determined by the Minister of Finance
Living and Non Living Resources	GRAP 110	No effective date has been determined by the Minister of Finance
Segmental Reporting	GRAP 18	No effective date has been determined by the Minister of Finance
Accounting by principals and agents	GRAP 109	No effective date has been determined by the Minister of Finance

2. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	9 598 063	(1 113 431)	8 484 632	9 598 063	(921 408)	8 676 655

Reconciliation of investment property - 30 June2019

	Opening balance	Depreciation	Total
Investment property	8 676 655	(192 023)	8 484 632

Reconciliation of investment property - 30 June 2018

	Opening balance	Depreciation	Total
Investment property	8 868 678	(192 023)	8 676 655

3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	9 123 000	-	9 123 000	9 123 000	-	9 123 000
Buildings	36 134 220	(3 124 182)	33 010 038	32 801 114	(1 817 817)	30 983 297
Infrastructure-Solid waste	20 417 671	(15 850 079)	4 567 592	21 769 566	(15 131 881)	6 637 685
Machinery and equipment	35 313 283	(17 982 894)	17 330 389	33 345 388	(16 241 781)	17 103 607
Furniture and office equipment	4 570 400	(2 534 312)	2 036 088	4 698 467	(2 171 444)	2 527 023
Transport Assets	16 691 086	(11 221 549)	5 469 537	15 861 321	(9 505 767)	6 355 554
Computer equipment	4 221 510	(2 237 165)	1 984 345	3 297 339	(1 772 668)	1 524 671
Infrastructure-Roads	484 689 471	(250 853 026)	233 836 445	469 742 689	(219 943 193)	249 799 496
Community	53 150 851	(10 860 654)	42 290 197	40 461 901	(9 374 576)	31 087 325
Work in progress	41 841 468	-	41 841 468	37 515 174	-	37 515 174
Telecommunications equipment	500 019	(79 519)	420 500	61 137	(13 525)	47 612
Total	**706 652 979**	**(314 743 380)**	**391 909 599**	**668 677 096**	**(275 972 652)**	**392 704 444**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2019

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	9 123 000	-	-	-	-	-	-	9 123 000
Buildings	30 983 297	903 322	-	2 643 544	-	(1 323 834)	-	33 010 038
Infrastructure-Solid waste	6 637 685	-	-	-	(1 351 897)	(718 196)	-	4 567 592
Machinery and equipment	17 103 607	3 412 424	(601 318)	-	-	(2 284 324)	-	17 330 389
Furniture and office equipment	2 527 023	75 478	(49 481)	-	-	(506 030)	(22)	2 036 088
Transport assets	6 355 554	846 501	(237)	-	-	(1 534 173)	(198 108)	5 469 537
Computer equipment	1 524 671	1 051 878	(24 870)	-	-	(558 628)	-	1 984 345
Infrastructure-Roads	249 799 496	4 331 712	-	7 557 533	-	(30 909 833)	-	233 836 445
Community	31 087 325	12 688 951	-	-	-	(1 486 079)	-	42 290 197
Work in progress	37 515 174	13 825 179	-	(10 201 077)	-	-	-	41 841 468
Telecommunications equipment	47 612	452 434	(9 816)	-	-	(79 520)	-	420 500
	392 704 444	**37 587 879**	**(685 722)**	**-**	**(1 351 897)**	**(39 400 617)**	**(198 130)**	**391 909 599**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2018

	Opening balance	Additions	Disposals	Transfers	Reclassifications	Depreciation	Total
Land	9 123 000	-	-	-	-	-	9 123 000
Buildings	9 071 488	7 393 533	-	14 076 770	1 014 685	(573 179)	30 983 297
Infrastructure-Solid Waste	7 837 909	2 051 148	-	-	-	(3 251 372)	6 637 685
Machinery and equipment	18 268 826	1 805 071	(767 718)	-	-	(2 202 572)	17 103 607
Furniture and office equipment	2 929 914	139 640	(12 353)	-	-	(530 178)	2 527 023
Transport assets	7 829 159	-	-	-	-	(1 473 605)	6 355 554
Computer equipment	1 778 370	315 202	(36 378)	-	-	(532 523)	1 524 671
Infrastructure-Roads	255 215 567	28 290 736	(664 724)	4 322 505	(2 444 633)	(34 919 955)	249 799 496
Community	31 247 435	-	-	-	1 166 820	(1 326 930)	31 087 325
Work in progress	36 550 895	19 363 554	-	(18 399 275)	-	-	37 515 174
Telecommunication equipment	115 867	-	(43 326)	-	-	(24 929)	47 612
Leased assets	25 506	-	(19 129)	-	-	(6 377)	-
	379 993 936	**59 358 884**	**(1 543 628)**	**-**	**(263 128)**	**(44 841 620)**	**392 704 444**

Pledged as security

There are no assets pledged as security

Work In Progress Breakdown

Buildings	857 559	22 135 905
Community	12 757 134	-
Investment property	2 169 790	-
Infrastructure-Roads	28 058 326	15 379 267
	43 842 809	**37 515 172**

Figures in Rand	2019	2018

3. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	3 720 564	2 218 872
Operational costs	151 175	1 828 464
	3 871 739	**4 047 336**

Repairs and maintenence per asset class:		
Buildings and other structures	478 251	458 872
Tools and equipment	2 109 323	2 895 363
Vehicle and implements	154 858	149 191
Roads and stormwater	903 996	2 754 048
Electricity repairs	74 136	48 956
Furniture and office equipment	-	202 022
	3 720 564	**6 508 452**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The useful life for some of the movable assets has been re assessed as at the beginning of the financial year based on the condition of the assets.

4. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	3 065 131	(1 485 832)	1 579 299	2 366 691	(967 868)	1 398 823

Reconciliation of intangible assets - 30 June2019

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software	1 398 823	701 637	(202)	(520 959)	1 579 299

Reconciliation of intangible assets - 30 June 2018

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	1 037 818	715 436	(354 431)	1 398 823

Pledged as security

There are no intangible assets pledged as security.

Figures in Rand	2019	2018

5. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heroes Park	2 077 261	-	2 077 261	2 077 261	-	2 077 261
Mayoral Chains	329 250	-	329 250	329 250	-	329 250
Total	**2 406 511**	**-**	**2 406 511**	**2 406 511**	**-**	**2 406 511**

Reconciliation of heritage assets 30 June2019

	Opening balance	**Total**
Heroes Park	2 077 261	2 077 261
Mayoral Chains	329 250	329 250
	2 406 511	**2 406 511**

Reconciliation of heritage assets 30 June 2018

	Opening balance	**Transfers**	**Total**
Heroes Park	2 137 461	(60 200)	2 077 261
Mayoral Chains	329 250	-	329 250

Condition of heritage assets

The balances reflected above represent the fair value of the assets at the date of acquisition. Heritage assets were assessed for any signs of impairment as at 30 June 2019 and it was found that there were no indications of impairment.

Pledged as security

There are no heritage assets pledged as security.

6. Receivables from exchange transactions

Service debtors	265 314	173 105
Creditors with debit balances	83 438	66 352
	348 752	**239 457**

Service debtors

Refuse		
Gross balance	1 820 175	1 439 034
Less: Provision for bad debts	(1 544 987)	(1 268 235)
	275 188	**170 799**

Figures in Rand	2019	2018

6. Receivables from exchange transactions (continued)

Refuse: Ageing		
Current (0-35)	175 223	88 646
30-60 days	67 946	65 345
60-90 days	119 997	58 170
+90 days	1 447 136	1 226 873
	1 810 302	**1 439 034**

Leases		
Gross balance	27 113	27 113
Less: Provision for bad debts	(27 113)	(24 807)
	-	**2 306**

Leases: Ageing		
Current (0-30days)	-	-
30-60 days	-	-
+90 days	27 113	27 113
	27 113	**27 113**

Trade and other receivables past due but not impaired

At 30 June 2019 R50 879 (2018: R21,189) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	67 945	6 403
2 months past due	16 672	5 699
3 months past due	-	5 022
> 3 months past due	-	4 065
	84 617	**21 189**

Reconciliation of doubtful debt provision

Opening balance	(1 293 042)	(961 475)
Provision for impairment	(276 752)	(331 567)
Amounts written off as uncollectible	-	-
	(1 569 794)	**(1 293 042)**

During the 2013 financial year there were suppliers to the amount of R58 352 who were over paid by the Municipality, these Creditors with debtors balances were handed over for collection, however the amounts have not been recovered. These amounts were written off by the council as they were uncollectable.

During 2017 financial year an amount of R8000 was overpaid to the supplier, as at 30 June 2019 the Munucipality the municipality has not yet recovered the amount.

7. Receivables from non-exchange transactions

Rates	5 434 545	4 832 630
Sundry debtors	1 219 075	912 225
Less: Provision for doubtful debts	(5 403 385)	(4 363 350)
	1 250 235	**1 381 505**

Figures in Rand	2019	2018

7. Receivables from non-exchange transactions (continued)

Rates		
Gross balance	5 457 223	4 832 630
Debtors who signed agreements	(22 678)	-
Less: Provision for doubtful debts	(5 326 802)	(4 284 876)
	107 743	**547 754**

Rates: Ageing		
Current (0-30 days)	71 928	64 583
30-60 days	33 265	35 473
60-90 days	63 981	35 095
+90	5 288 049	4 697 479
	5 457 223	**4 832 630**

Sundry debtors

Gross sundry debtors	1 219 075	912 225
Less: Provision for doubtful debts	(78 474)	(78 474)
	1 140 601	**833 751**

Sundry debtors include the following:
Traffic fines R1 044 950
Other debtors R174 125

Receivables from non-exchange transactions past due but not impaired

At 30 June 2019, R45 942 - (2018: R384 795 -) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	33 265	5 148
2 months past due	12 677	-
2 months past due	-	-
3 months past due	-	379 647

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(4 363 350)	(5 924 220)
Provision for impairment	(1 041 925)	1 560 870
Amounts written off as uncollectible	(994 842)	-
	(6 400 117)	**(4 363 350)**

8. VAT receivable

VAT receivable	1 791 351	4 300 480

The Municipality is registered for VAT on the payment basis.

Figures in Rand	2019	2018

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	362
Bank balances	261 184	483 710
Call accounts	48 800 849	81 511 619
	49 062 033	**81 995 691**

Cash and cash equivalents pledged as collateral

There is no cash and cash equivalent pledged as security.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
First National Bank-Public Sector Cheque Acc-52171242061	261 184	456 678	6 302 003	261 184	483 710	6 270 398
First National Bank-Municipal Infrastructure Grant Acc-620950523	6 486	11 497 741	22 924 848	6 486	11 497 742	22 924 849
First National Bank-Municipal Systems Improvement Grant Acc-62095030426	14 676	14 221	13 774	14 676	14 221	13 774
First National Bank-Finance Management Grant Acc-62095026524	6 846	41 555	1 160	6 846	41 555	1 160
First National Bank-ELM Main Investment Account 62024356570	47 267 088	66 295 212	56 637 905	47 267 088	66 295 213	56 637 905
First National Bank-Small Town Revitalisation-Acc 61217013327	2 854	714 008	563 869	2 854	714 008	563 869
First National Bank-Equitable Share Acc 62012728484	215 194	1 724 331	985 324	215 194	1 724 331	985 324
First National Bank Eletrification Grant Acc 62027299967	3 184	3 164	-	3 184	3 164	-
First National bank-SMME Support Investment-Acc 62747881739	1 284 521	1 221 385	-	1 284 521	1 221 385	-
Total	**49 062 033**	**81 968 295**	**87 428 883**	**49 062 033**	**81 995 329**	**87 397 279**

Figures in Rand	2019	2018

10. Employeeet benefit obligations

Defined benefit and contribution plan

The following are defined benefit and contribution plans: SAMWU Provident Fund, Cape Joint Pension Fund, National Fund for Municipal Workers and Councillors' Pension Fund. These contributions have been expensed. These funds have been registered and governed under the Pension Fund Act, 1956 as amended.
There are 52 employees that belong to the SAMWU Provident Fund (2018: 84), 09 employees that belong to the Cape Joint Pension Fund (2018: 77), 90 employees that belong to the National Fund for Municipal Workers (2018: 78) and there are 36 councillors that belong to the Councillors' Pension Fund (2018:39).

Amounts contributed to the plans are as follows:

	2019	2018
SAMWU Provident Fund		
- employer	1 366 471	1 418 259
- employee	682 175	709 130
	2 048 646	**2 127 389**
Cape Joint Pension Fund		
- employer	2 276 816	2 125 283
- employee	1 162 632	1 063 853
	3 439 448	**3 189 136**
Councillors' Pension Fund		
- employee	1 509 679	1 459 418
National Fund of Municipal Workers		
- employer	1 579 304	481 024
- employee	790 172	-
	2 369 476	**481 024**
Cape Joint Retirement Fund		
- employer	375 764	393 564
- employee	343 505	223 922
	719 269	**617 486**

Long Service Bonus Liability

	2019	2018
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3 208 844)	(2 476 588)
Non-current liabilities	(2 766 293)	(2 019 708)
Current liabilities	(442 551)	(456 880)
	(3 208 844)	**(2 476 588)**

Arch Actuarial Consulting company was used to perform the actuary valuation of the Employee Benefits Obligation for Long Service Award liability.

This obligation relates to the expected outflows of economic benefits associated with paying employees that have completed a cycle of 5 years in the employ of the municipality.

Figures in Rand	2019	2018

10. Employeet benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2 476 588	2 198 068
Contributions by plan participants	365 943	361 591
Interest cost	189 683	169 315
Employee benefit vested	(456 880)	(148 967)
Actuarial (gains) /losses	633 510	(103 419)
	3 208 844	**2 476 588**

Key assumptions used

The following assumptions were used for the Employee benefit Long Service Award Liability calculation at the 30 June 2019:

The evaluation was based on 194 eligible employees, Earnings-weighted average age of 39.7 and an Earnings-weighted average past service of 7.7.

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive.

The key financial and demographic assumptions are summarised below:

Discount rate: 8.17%

General earnings inflation rate (long-term): 5.56%

Net effective discount rate: 2.47%

Sensitivity Results
The liability at the Valuation Date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed general earnings inflation rate;
(ii) A 1% increase and decrease in the discount rate;
(iii) A two-year decrease and increase in the assumed average retirement age of employees; and
(iv) A 50% decrease in the assumed withdrawal rates from service.

Figures in Rand

11. Provisions

Reconciliation of provisions - 30 June2019

	Opening Balance	Additions	Reversed during the year	Total
Legal proceedings	1 000 000	-	(105 000)	895 000
Provision for performance bonuses	2 327 636	1 391 175	-	3 718 811
Landfill site restoration provision	22 403 499	253 665	-	22 657 164
	25 731 135	**1 644 840**	**(105 000)**	**27 270 975**

Reconciliation of provisions - 30 June 2018

	Opening Balance	Additions	Total
Legal proceedings	-	1 000 000	1 000 000
Provision for performance bonuses	1 341 580	986 056	2 327 636
Current portion of landfill site restoration provision	20 352 351	2 051 148	22 403 499
	21 693 931	**4 037 204**	**25 731 135**

Non-current liabilities	22 657 164	22 403 499
Current liabilities	4 613 811	3 327 636
	27 270 975	**25 731 135**

Figures in Rand	2019	2018

11. Provisions (continued)

Environmental rehabilitation provision

The Landfill Rehabilitation Provision consists of once-off costs to be incurred for rehabilitation of the current operational sites. The current non-recurring costs amounted to R17 672 596 (2018: R 15,798,490). Rehabilitation costs also include annual monitoring costs. These costs were determined at a CPI rate of 10,25% (2018: 10.25%) per annum and were discounted to its present value, applying a prime rate of 10.25% (2018: 10.25%) per annum. The useful life of the landfill site was assessed to be 30 years from the date of establishment. Monitoring costs was estimated for the remaining 30 years to closure as well as 30 years subsequent to closure.

The Landfill Rehabilitation Provision was calculated by Ekolaw Consulting.

The risk free rate as per the accounting policy was applied in 2019 financial year.

Legal proceedings provisions

Legal proceedings for 2019 resulted from the outcome of the court case between Nobulali Abraham vs Engcobo Municipality - This is an action instituted by the Plaintiff Nobulali Abraham against the municipality for damages allegedly suffered by her whilst she was walking down the street and fell into an uncovered four cornered valve drainage and sustained a broken ankle. The amount, the timing of the payment and the outcome of the court case is still uncertain as the Municipality appealed and there was no final judgement as at 30 June 2019.

Provision for Performance Bonus

The previous 2018 financial year liability for the Performance Bonus was still outstanding as at 30 June 2019.

As per the Performance Regulations, the s56 and other senior managers entitled in terms of their employee contracts will be able to qualify for performance bonuses according to the following ratings:

A score of 130% to 149% is awarded a performance bonus ranging from 5 – 9% and

A score of 150 and above is awarded a performance bonus ranging from 10% - 14% .

Section 56 Managers have their bonuses worked out on a sliding scale framework.

Subjects to the scorings attained by incumbent managers, it was considered prudent to provide a projection of a maximum of 14 of the Senior Managers' total salary bracket to avoid a budget shortfall.

The provision for the bonus was estimated at 14%, based on the past history of payments where for the past two years the average percentage paid for performance bonuses was calculated to be 14%. The municipality has provided only for employees employed for more than 6 months.

12. Payables from exchange transactions

Trade payables	3 976 513	11 501 169
Other trade payables	577 495	352 826
Accruals and 13th Cheque	5 803 351	3 540 841
Leave accrual	5 002 884	3 705 286
Retention accruals	2 700 871	3 966 198
	18 061 114	**23 066 320**

13. Payables from non-exchange transactions

Rates debtors with credit balances	394 929	180 933

Figures in Rand	2019	2018

14. Unspent conditional grants and receipts

Movement during the year

Balance at the beginning of the year	1 956 056	14 474 500
Additions during the year	38 424 837	48 392 426
Income recognition during the year	(39 139 854)	(60 910 870)
	1 241 039	**1 956 056**

Non-current liabilities	-	-
Current liabilities	1 241 039	1 956 056
	1 241 039	**1 956 056**

See note 20 for the reconciliation of grants from National/Provincial Government for revenue recognised during the financial year.

The following grants did not have revenue recognised as they were still unspent as at year end:

CHDM - SMME Support of R1,200,000
CHDM - Whistle Blowing Facilities of R41,039

15. Service charges

Refuse removal	1 043 604	960 597

16. Revenue

Service charges	1 043 604	960 597
Rental of facilities and equipment	162 690	266 050
Interest earned on outstanding debtors	603 459	499 980
Licences and permits	2 340 558	1 958 848
Other income	1 097 930	1 307 010
Interest received - investment	5 615 196	6 372 104
Property rates	3 782 576	3 920 799
Government grants & subsidies	175 270 854	195 122 113
Fines	423 300	1 215 480
	190 340 167	**211 622 981**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1 043 604	960 597
Rental of facilities and equipment	162 690	266 050
Interest earned on outstanding debtors	603 459	499 980
Licences and permits	2 340 558	1 958 848
Other income	1 097 930	1 307 010
Interest received - investment	5 615 196	6 372 104
	10 863 437	**11 364 589**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

16. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3 782 576	3 920 799
Transfer revenue		
Government grant & subsidies	175 270 854	195 122 113
Fines	423 300	1 215 480
	179 476 730	**200 258 392**

17. Other income

Agricultural fees	65 581	75 993
Auction fees	131 453	-
Cemetry fees	6 712	6 277
Plantations fees	170	317
Tender fees	714 855	515 144
Sundry income	1 389	53 728
Recycling	2 873	41 436
Clearance certificates	1 652	202
Swimming pool	3 342	3 323
Pound fees	98 378	15 887
Entrance fees-toilets	24 180	25 868
Building plan fees	37 385	19 511
Sale of land	-	17 544
Rezoning certificates	2 071	13 643
Library fees	-	1 491
Insurance	7 889	516 646
	1 097 930	**1 307 010**

18. Interest received

Interest revenue		
Bank - Interest received	5 615 196	6 372 104

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Property rates

Rates received

Property rates	3 902 674	4 096 955
Less: Income forgone	(120 098)	(176 156)
	3 782 576	**3 920 799**

Valuations

Residential	88 844 000	88 844 000
Commercial	127 193 000	127 193 000
State	51 258 000	51 258 000
Municipal	2 783 900	2 783 900
	270 078 900	**270 078 900**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2014 by Sizanane Property Consultants. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

General rates of R0.0149 (2018: R0.0149) for residential and R0.0250 (2018: R0.0250) for public service infrastucture properties, R0.0184 (2018: R0.0184) for business, R0.0250 (2018: R0.0250) for agriculture and R0.0184 (2018: R0.0184) for government properties and R0.0191 (2018: R0.0191) for vacant land. Rebates of R15,000 and (2018: R15,000) are granted to residential property owners and rebates of 20% of market value are granted for state property owners respectively. Public service infrastructure is exempt on the first 30% of the market value.

Rates are levied on an annual basis with the final date for payment being Friday, 28 June 2019 (Saturday, 30 June 2018).

The Municipality was due to implement general valuation on 01 July 2019 but did not implement due to ratepayers disputes. An approval to extend implementation date to 01 July 2020 was obtained from MEC.

Figures in Rand	2019	2018

20. Revenue from Government grants and subsidies

Equitable Share	136 131 000	134 108 000
Electricification Grant	-	13 000 000
Municipal Infrastructure Grant	33 794 000	42 584 393
Finance Municipal Grant	1 700 000	1 700 000
CHDM: Small Town Revitalisation Grant	-	1 754 386
EPWP Grant	2 160 000	1 391 000
Library Grant	1 365 017	481 091
LG SETA	120 837	103 243
	175 270 854	**195 122 113**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Electrification Grant

Current-year receipts	-	13 000 000
Conditions met - transferred to revenue	-	(13 000 000)
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	13 928 393
Current-year receipts	33 794 000	28 656 000
Conditions met - transferred to revenue	(33 794 000)	(42 584 393)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Finance Management Grant

Current-year receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 700 000)
	-	-

CHDM - Small Town Revitalisation Grant

Current-year receipts	-	1 754 386
Conditions met - transferred to revenue	-	(1 754 386)
	-	-

Conditions still to be met - remain liabilities (see note 14).

EPWP Grant

Current-year receipts	2 160 000	1 391 000
Conditions met - transferred to revenue	(2 160 000)	(1 391 000)
	-	-

CHDM-SMME support

Figures in Rand	2019	2018

20. Revenue from Government grants and subsidies (continued)

Balance unspent at beginning of year	1 200 000	1 200 000

Conditions still to be met - remain liabilities (see note 14).

Libary Grant

Balance unspent at beginning of year	715 016	546 107
Current-year receipts	650 000	650 000
Conditions met - transferred to revenue	(1 365 017)	(481 091)
	-	**715 016**

Conditions still to be met - remain liabilities (see note 14).

LG SETA

Current-year receipts	120 837	103 243
Conditions met - transferred to revenue	(120 837)	(103 243)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Chris Hani District Municipality-Whistle Blowing Facilities

Balance unspent at beginning of year	41 039	41 039

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2016), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

21. Employee cost

Basic	50 492 981	44 550 585
Pension Fund, UIF and Medical Aid - Company Contributions	8 043 489	6 993 716
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	9 193 848	7 259 051
Overtime Payments	2 752 080	1 810 171
Long-service awards	633 510	212 624
Housing Benefits and Allowances	286 437	247 815
Other Employee Related Costs	5 424 630	5 228 086
	76 826 975	**66 302 048**

Remuneration of Municipal Manager-SV Poswa

Annual Remuneration	434 063	422 443
Travel, Motor Car , Accommodation, Subsistence, and Other Allowances	212 476	108 807
Contributions to UIF, Medical ,Pension and Insurance Funds	13 872	6 744
Leave encashment	75 926	-
	736 337	**537 994**

Mr Poswa was appointed as the Municipal Manager up to the period ending December 2018.

Remuneration of Municipal Manager - M Moyo

Annual Remuneration	240 966	-
Travel, Motor Car , Accommodation, Subsistence, and Other Allowances	7 305	-
Contributions to UIF, Medical ,Pension and Insurance Funds	2 941	-
	251 212	**-**

Mr Moyo was appointed the Municipal Manager from April 2019.

Remuneration of Acting Municipal Manager - Z Xuba

Annual remuneration	45 036	-

Xuba was appointed as Acting Municipal Manager from January to April 2019.

Remuneration of Chief Finance Officer-NF Siwahla

Annual Remuneration	688 329	112 211
Travel, Motor Car , Accommodation, Subsistence, and Other Allowances	338 827	22 759
Contributions to UIF, Medical ,Pension and Insurance Funds	11 385	3 538
Leave encashment	-	183 529
	1 038 541	**322 037**

Figures in Rand	2019	2018

21. Employee cost (continued)

Remuneration of Director: Technical Services-B Tutu

Annual Remuneration	688 330	746 421
Travel, Motor Car , Accommodation, Subsistence, and Other Allowances	308 527	357 465
Performance Bonuses	-	12 907
Contributions to UIF, Medical ,Pension and Insurance Funds	11 369	164 196
Leave encashment	-	187 653
	1 008 226	**1 468 642**

Mr Taleni was appointed as Corporate Services director up to the period ending May 2019

Remuneration of Director: Corporate Services- LTaleni

Annual Remuneration	529 279	310 279
Travel, Motor Car , Accommodation, Subsistence, and Other Allowances	419 885	79 915
Contributions to UIF, Medical ,Pension and Insurance Funds	29 445	6 489
Leave encashment	-	209 748
	978 609	**606 431**

Remuneration of Director: Community Services- L Kutwan-Gomana

Annual Remuneration	652 966	607 522
Travel, Motor Car , Accommodation, Subsistence, and Other Allowances	339 955	304 659
Performance Bonuses	50 277	103 425
Contributions to UIF, Medical ,Pension and Insurance Funds	105 000	188 247
	1 148 198	**1 203 853**

Remuneration of Director: IPED- Z Xuba

Annual Remuneration	660 832	750 202
Travel, Motor Car , Accommodation, Subsistence, and Other Allowances	344 336	305 238
Contributions to UIF, Medical ,Pension and Insurance Funds	17 426	139 473
Performance Bonuses	-	147 107
Leave encashment	37 312	-
	1 059 906	**1 342 020**

Acting Technical Services Manager - Mkondweni

Annual Remuneration	3 434	-

Mkondweni was appointed to act in the position of Technical Services Manager from January to February 2019.

Acting Technical Services Manager-Taleni

Annual Remuneration	2 750	-

Taleni was appointed acting Technical Services Manager for December 2018.

Figures in Rand	2019	2018

22. Remuneration of councillors

Mayor	821 413	843 671
Speaker	708 770	686 488
Councillors allowances	4 174 776	4 123 991
Councillors' pension contribution	1 509 679	1 459 418
Councillors' salaries	8 215 441	7 646 421
	15 430 079	**14 759 989**

In-kind benefits

The Mayor, Speaker, the Chief Whip, IPED Portfolio Head and the Finance Portfolio Head are full-time. The Mayor, Speaker and Chief Wip are provided with officers and secretarial support at the cost of the Council.

The Mayor and Speaker have use of a Council owned vehicle for official duties.

Remuneration paid to Councillors can be summarised as follow:

	Salary	Allowances	Total
Mayor	652 263	169 150	821 413
Speaker	487 098	221 672	708 770
Councillors	8 215 441	5 684 455	13 899 896
	9 354 802	**6 075 277**	**15 430 079**

23. Depreciation and amortisation

Property, plant and equipment	39 400 617	41 682 564
Investment property	192 023	192 023
Intangible assets	520 958	354 431
	40 113 598	**42 229 018**

24. Impairment losses

Property, plant and equipment	198 131	-

Impairment loss relates to a vehicle damaged as well as furniture and fittings broken.

25. Finance costs

Landfill site provision interest	1 605 561	-
Interest on overdue accounts	119 485	42 556
Long-service award interest	189 683	169 315
	1 914 729	**211 871**

26. Hire of equipment

Premises

Hire of equipment	1 461 617	703 951

Included in the above rentals are operating lease rentals of R66'832 - R237 984 (2018):

Refer to Operating Lease note no 39

Figures in Rand	2019	2018

27. Debt impairment

Contributions to debt impairment provision	2 315 826	2 334 571

28. Contracted services

Outsourced Services	6 095 009	5 063 756
Consultant and Professional Services	12 686 377	9 712 055
Contractors	4 298 893	3 780 849
	23 080 279	**18 556 660**

Consulting and professional services include:

Valuation roll

Preparation and submission of VAT 201 returns.

Assistance with the preparation of Annual Financial Statements.

Consultants and engineering proffessional fees.

Contractors are required to provide services that are not the core business of the municipality.

	-	-

29. Transfers and subsidies

Indigent Subsidy and free basic electricity	5 091 261	3 698 182

This is electricitrity and solar system that is provided to indigent people by the Municipality.

30. Gain/(Loss) on disposal of property, plant and equipment

Property, plant and equipment	(540 542)	(1 364 864)

Figures in Rand	2019	2018

31. Operational costs

Audit committee	239 421	238 375
Advertising	912 403	1 965 992
Membership fees	815 700	945 604
Auditors fees	4 864 437	4 522 451
Bank charges	350 999	431 098
Cleaning	195 800	192 751
Public swimming pool expenses	-	27 999
Stock and material	409 609	75 516
Project management unit	33 240	45 000
Catering	1 598 922	559 682
Insurance	726 678	993 803
Conferences and delegations	328 253	144 583
Employee health & wellness	4 450	97 898
Fuel & Oil	3 740 290	4 016 327
Postage	7 944	3 367
Printing & Stationery	573 337	525 904
Uniforms and overalls	602 490	86 514
Workmen's Compensation	435 394	465 358
Performance management system	-	435 823
Telephone & communications	3 100 617	3 203 584
Training	1 229 400	795 121
Travel, subsistence & accommodation	7 591 381	5 324 443
Refuse bags and bins	850 600	354 441
Skills development & capacity building	1 695 811	1 675 478
Electricity purchases	1 467 966	1 291 120
Electrification expenses	14 098 976	14 383 548
Disaster support	39 600	148 932
Public participation	871 174	1 152 464
Licence fees	842 111	1 485 186
Traditional leaders	273 025	288 000
Agricultural pilot projects	3 209 670	-
Ward committee programmes	4 025 900	3 591 000
Small town revitalisation and SMME support	441 163	3 701 984
Animal feed	156 841	21 750
Donations	52 268	-
	55 785 870	**53 191 096**

Figures in Rand	2019	2018

32. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

30 June2019

	Amortised cost	Total
Receivables from exchange transactions	348 752	348 752
Receivables from non exchange transactions	1 250 235	1 250 235
Cash and cashequivalent	261 184	261 184
Short term deposits (call accounts)	48 800 849	48 800 849
Vat receivables	1 791 351	1 791 351
	52 452 371	**52 452 371**

30 June 2018

	Amortised cost	Total
Receivables from exchange transactions	239 457	239 457
Receivables from non exchange transactions	1 381 505	1 381 505
Cash and cashequivalent	484 072	484 072
Short term deposits (call accounts)	81 511 619	81 511 619
Vat receivables	4 140 087	4 140 087
	87 756 740	**87 756 740**

33. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

30 June2019

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	18 061 114	18 061 114
Payables from non-exchange	394 929	394 929
	18 456 043	**18 456 043**

30 June 2018

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	22 966 614	22 966 614
Payables from non exchange	180 933	180 933
	23 147 547	**23 147 547**

34. Audit fees

Fees	4 864 437	4 522 451

Figures in Rand	2019	2018

35. Cash generated from operations

(Deficit) surplus	(33 052 250)	8 374 150
Adjustments for:		
Depreciation and amortisation	40 113 598	42 229 018
Loss on sale of property, plant and equpment	540 542	-
Interest and finance costs	(5 615 196)	(6 660 213)
Impairments of property, plant and equipment	198 131	-
Debt impairment	2 315 826	2 334 571
Movements in retirement benefit assets and liabilities	732 256	278 520
Finance charges	119 485	-
Contributions to provisions	2 160 439	4 037 204
Changes in working capital:		
Receivables from exchange transactions	(109 295)	(1 827 200)
Receivables from non-exchange transactions	131 270	984 833
Payables from exchange transactions	(5 005 206)	8 687 841
VAT	2 509 129	427 223
Taxes and transfers payable (non exchange)	213 996	180 933
Unspent conditional grants and receipts	(715 017)	(12 518 444)
Landfill site provision interest	1 605 561	-
Actuarial losses	633 510	-
	3 193 659	**46 528 436**

Figures in Rand	2019	2018

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	3 383 664	12 086 127
• Electrification	5 786 199	6 004 085
	9 169 863	**18 090 212**

Total capital commitments		
Already contracted for but not provided for	9 169 863	18 090 212

Authorised operational expenditure

Already contracted for but not provided for		
• Other	16 883 293	5 888 819

Total operational commitments		
Already contracted for but not provided for	16 883 293	5 888 819

Total commitments

Total commitments		
Authorised capital expenditure	9 169 863	18 090 212
Authorised operational expenditure	16 883 293	5 888 819
	26 053 156	**23 979 031**

This capital committed expenditure will be financed by government grants and municipal revenue.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	114 570	114 570
- in second to fifth year inclusive	47 737	162 307
	162 307	**276 877**

Operating lease payments represent rentals payable by the municipality to Konica Minolta for certain of its office properties. Leases are negotiated for an average term of 36 months where rentals are fixed for three years. No contingent rent is payable. The equipment remains the property of Konica Minolta.

A monthly rental of R340.99 is applied for any extension of the term for a maximum of 24 months. Refer to note 35 for current year expenditure under Hire of Equipment.

Figures in Rand	2019	2018

37. Contingent liabilities

Probuild vs Engcobo Municipality: Plaintiff claim for outstanding payment	851 328	-
Taljaard (Curator-ad-Litem) for Luke vs Engcobo Municipality: Plaintiff claim for loss of support due to building collapse in the eNgcobo main street	-	250 000
Jabulani Mndebele vs Engcobo Municipality: Plaintiff sued for damages for unlawful confiscation of motor vehicle	-	-
Sithilanga Kupa vs Engcobo Municipality - Sithilanga Kupa is demanding the amount of R1,000,000 from the municipality for bodily injuries allegedly sustained by him in a motor vehicle accident which occurred on the 18 December 2013 at the Gubenxa Administrative Area in the district of Engcobo due to negligence of the municipal employees or its contractor whilst constructing or maintaining the road.	1 000 000	1 000 000
Mancobo Seven Angels Church vs Engcobo Municipality: Demolition of Mancobo church	-	120 000
Engcobo Municipality vs Mzunzima Mpalala: Sueing for damages	-	451 650
Engcobo Local Municipality vs Xoliswa Kula The Plaintiff sues the municipality claiming that the municipality built a gravel road on her property.	-	2 500 000
Municipality issued a RDP house to Ms Mbeshu in 2000. The house invaded and occupied by Ms Nomsa Damoyi. Municipality evicted Ms Nomsa Damoyi as title deed was issued to Ms Mbeshu.	30 000	60 000
Allenby Housing CC vs Engcobo Local Municipality - In this matter the Plaintiff sues the municipality for duty of care in that the municipality paid the invoice due to the Plaintiff to the partner of the Plaintiff. The Plaintiff is suing the municipality for R255,481.79.	225 481	225 481
Madolo Security Services vs Engcobo Local Municipality - Plaintiff is suing municipality for breach of Contract. Plaintiff is a security company from whom municipality lost property including two cars that were robbed during their tenure.	3 457 864	3 457 864
Nnite Trading Entreprises vs Engcobo Loc. Municipality - Municipality sued for services rendered by Plaintiff by Agreement	68 047	95 000
Jumba Construction and Engcobo Local Municipality:Plaintiff is claiming that he rendered services on behalf of the Municipality and was never paid.	62 000	-
	5 694 720	**8 159 995**

37. Contingent liabilities (continued)

Contingent assets

In 2013/14 financial year the municipality discovered alledged fraud. Municipal employees committed aledged fraud. The case was reported to the SAPS and the Hawks were called in to investigate the case. The matter is currently ongoing at the high court. Based on legal advise the municipality is of the opinion it can recover a portion of the lost funds.

Kenneth Lentsoane refused to pay municipal services as he was of the view that the services were overcharged. Kenneth Lentsoane withdrew the case as he later noticed that the municipal services were correctly charged and started to pay municipal services.

Contingent assets	2019	2018
Fraudulent employees	2 806 634	2 806 634
Kenneth Lentsoane	-	40 000
	2 806 634	**2 846 634**

38. Related parties

Relationships

Joint ventures	None identified
Associates	None identified
Close family member of key management	Refer below:
Joint venture of key management	None identified
Associate of close family member of key management	None identified
Post employment benefit plan for employees of entity and/or other related parties	Refer to note 7

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

For key management and Councillors remuneration refer to notes 26 and 27.

There are no post-employment benefits for key personnel. The long-service bonus awards for other employees are disclosed in note 7

The Municipality traded with the following related suppliers (close family member) as at 30 June 2019:

1. Cirha Hiring Services - R13 800.

The director of Cirha trading is married to Nothemba Qobo who is an employee of the Municipality.

Figures in Rand	2019	2018

39. Prior period errors

Furniture and fittings
The movement of cost and accumulated depreciation that was disclosed on the face of the financial statements for 2018 was not added correctly; The movement for cost should have been R4 698 467 instead of R4 712 956 and the movement of accumulated depreciation should have been R2 171 445 instead R2 185 933. There is a difference of R14 489 which resulted in an overstatement to the cost and accumulated depreciation

Buildings
The movement of cost and accumulated depreciation that was disclosed on the face of the financial statements for 2018 was not added correctly; The movement for cost should have been R31 815 492 instead of R31 652 980 disclosed and that one for accumulated depreciation should have been R1 817 827 instead of R1 655 305 disclosed. There is a difference of R162 512 which resulted in an understatement to the cost and accumulated depreciation.

An amount of R29 063 for Vat on an invoice for Buildings was wrongly captured to the cost of the building resulting in an overstatement in Buildings and an understatement of Vat.

Landfill
The movement of cost and accumulated depreciation that was disclosed on the face of the financial statements is not correct; The movement for cost should have been R21 769 566 instead of R16 215 534 disclosed and that one for accumulated depreciation should have been R15 131 882 instead of R9 577 850 disclosed. There is a difference of R 5 554 032

Infrastructure Assets
The movement of cost and accumulated depreciation that was disclosed on the face of the financial statements is not correct; The movement for cost should have been R472 087 619 instead of R477 676 565 disclosed and that one for accumulated depreciation should have been R216 784 138 instead of R222 373 083 disclosed. There is a difference of R5 588 945 which is an overstatement.

An amount of R3 159 056 for roads infrastructure accumulated impairment was wrongly taken to impairment expenditure. resulting in understatement of impairment loss as well as understatement for accumulated impairment.

Vat to the amount of R132 745 for Yawa Bridge was wrongly capitalised to the project in 2018 resulting in understatement of Vat Receivable and overstatement of Road Infrastructure.

An amount of R99 703 for Nqinawe project was wrongly debited to creditors resulting in an understatement in Roads Infrastructure as well as an understatement to creditors.

Vat Receivable

Interest from SARs to the amount of R6 210 that was received in 2016/2017 financial year was never recorded.
Vat to the amount of R132 745 for Yawa Bridge was wrongly capitalised to the project in 2018 resulting in understatement of Vat Receivable and overstatement of Road Infrastructure.

An amount of R1 415 on network infrastructure was wrongly taken to VAT resulting in an understatement in computer equipment as well as an overstatement in VAT.

An amount of R29 063 for Vat on an invoice for Buildings was wrongly captured to the cost of the building resulting in an overstatement in Buildings and an understatement of Vat.

Computer Equipment

An amount of R1 414,78 on network infrastructure was wrongly taken to VAT resulting in an understatement in computer equipment as well as an overstatement in VAT.

Intangible Assets

39. Prior period errors (continued)

Fuel expenditure to the value of R662 was wrongly captured as intangible asset resulting in overstatement of intangible assets and understatement of operational cost.

Operational Cost

Fuel expenditure to the value of R662 was wrongly captured as intangible asset resulting in overstatement of intangible assets and understatement of operational cost.

Figures in Rand	2019	2018

39. Prior period errors (continued)

	-	1
Property, plant and equipment-Furniture and office equipment Cost		
Balance previously stated	-	4 712 956
Prior period error	-	(14 489)
	-	**4 698 467**
Buildings-Acc depreciation		
Balance previously stated	-	(1 655 305)
Prior period error	-	(162 512)
	-	**(1 817 817)**
Infrastructure Solid Waste-Cost		
Balance previously stated	-	16 215 354
Prior period error	-	5 554 032
	-	**21 769 386**
Infrastructure Solid Waste-Acc depreciation		
Balance previously stated	-	(9 577 849)
Prior period error	-	(5 554 032)
	-	**(15 131 881)**
Infrastructure Roads -Cost		
Balance previously stated	-	477 676 565
Prior period error	-	(5 621 987)
Reclassification refer to note 39	-	(2 311 889)
	-	**469 742 689**
Infrastructure Roads -Acc depreciation and Impairment		
Balance previously stated	-	(222 373 083)
Prior period error	-	2 429 889
	-	**(219 943 194)**
Vat Receivable		
Balance previously stated	-	4 133 876
Prior period error	-	166 603
	-	**4 300 479**
Accumulated Surplus		
Balance previously stated	-	(434 271 232)
Prior period error	-	131 708
	-	**(434 139 524)**
Trade Payables		
Balance previously stated	-	(22 966 614)
Prior period error	-	(99 703)
	-	**(23 066 317)**

Figures in Rand	2019	2018

39. Prior period errors (continued)

Computer Equipment

	2019	2018
Balance previously stated	-	3 295 924
Prior period error	-	1 415
	-	**3 297 339**

Property, plant and equipment-Furniture and office equipment Acc depreciation

	2019	2018
Balance previously stated.	-	(2 185 933)
Prior period error	-	14 489
	-	**(2 171 444)**

Buildings-Cost

	2019	2018
Balance previously stated	-	31 652 980
Prior period error	-	133 449
Reclassification refer to note 39	-	1 014 685
	-	**32 801 114**

Intangible Assets

	2019	2018
Balance previously stated	-	1 399 485
Prior period error	-	(662)
	-	**1 398 823**

		-
	-	-

40. Reclassification of comparative information

Buildings-Fencing for Municipal buildings that was wrongly classified as Infrastructure assets to the value of R1 145 068 was reclassified to Buidings.

Community Assets-Sports field development that was wrongly classified as Infrastructure assets to the value of R1 166 821 was reclassified to Community assets.

Provisions- Total provision for 2017/2018 to the amount of R25 731 135 wasdisclosed as current liabilities, the non current portion to the amount of R22 403 499 was re-classified to non current liabilties.

With the implementation of mSCOA, the comparative figures for general expenses have been reclassified to operational costs. Furthermore, there was workmen's compensation to the amount of R465 358 which was included in employee costs in prior year and was reclassified to operational costs.

Leave gratuity and standby allowance included in basic salary for 2018 to the amount of R236 299 and R188 650 respectively were taken to other employee cost. Travel allowance to the amount of R2 702 in 2018 was taken from basic salary to travell allowances.

Security services costs to the amount of R5 063 756 which were disclosed as operational costs in the prior year were reclassified to contracted services under outsourced services.

Figures in Rand	2019	2018

40. Reclassification of comparative information (continued)

Indigent Subsidy and free basic electricity to the amount of R3 698 182 which was reclassified as operational cost was reclassified to transfers and subsidies.

Buildings- An amount of R130 383,39 that related to SMMEs support was wrongly classified as Buildings.

The effects of the reclassification are as follows:

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Property, plant and equipment-Buildings	31 652 980	1 014 685	32 667 665
Property, plant and equipment-Infrastructure	477 676 565	(2 311 889)	475 364 676
Property, plant and equipment-Community Assets	39 295 080	1 166 821	40 461 901
Current liabilities-Provisions	25 731 135	(22 403 499)	3 327 636
Non Current Liabilities-Provisions	-	22 403 499	22 403 499
Total	**574 355 760**	**(130 383)**	**574 225 377**

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
Contracted services	13 492 904	5 063 756	18 556 660
Operational costs	-	53 060 051	53 060 051
General expenses	61 356 631	(61 356 631)	-
Employee costs	66 767 406	(465 358)	66 302 048
Transfers and subsidies	-	3 698 182	3 698 182
SMME Support	-	130 383	130 383
Total	**141 616 941**	**130 383**	**141 747 324**

41. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through maintenance of cash balances.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	18 061 114	-	-	-
Unspent conditional grants and receipts	1 241 039	-	-	-

At 30 June 2018	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	23 066 320	-	-	-
Unspent conditional grants and receipts	1 956 056	-	-	-

41. Risk management (continued)

Interest rate sensitivity analysis

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end were as follows:

Cash and cash equivalents	49 062 033	81 995 691
Trade and other receivables from exchange transactions	348 752	239 457
Trade and other receivables from non exchange transactions	1 250 235	1 381 505
Vat receivable	1 792 718	4 300 480

42. Events after the reporting date

Subsequent to 30 June 2019, the matter for Nobulali Abraham versus Engcobo Local Municipality was held before court and the plaintiff claimed to be settled by an amount R895 000. At the reporting date the case was still not finalised.

43. Fruitless and wasteful expenditure

Opening balance	91 666	55 862
Fruitless and wasteful expenditure	119 600	35 804
Less written off by Council	(63 076)	-
Less: amount recovered.	(28 705)	-
	119 485	**91 666**

Fruitless expenditure of R28,705 for 2018 relates to payments made to SARS in 2018 due to interest charged on the late submission of VAT 201 forms. This amount has been recovered from the company appointed to perform VAT recovery services for the Municipality

Fruitless expenditure inlcudes an amount of R 119 485 that relates to interest and penalty payments to SARs as a result of late payment of PAYE, SDL and UIF. This has been submitted to fincial disciplinary board for investigation.

Fruitless expenditure of R7 099 for 2018 relates to late payments resulting from delays in receiving the supplier accounts due to the municipal service delivery strikes. The amount was written off by Council in August 2018.

Fruitless expenditure for 2017 amounting to R55 862 was written off by Council in August 2018.

44. Irregular expenditure

Opening balance	23 172 849	10 767 558
Add: Irregular Expenditure - current year	428 247	12 405 291
Less: Amounts written off	(10 909 106)	-
	12 691 990	**23 172 849**

Irregular expenditure for the 2018 financial year comprises of the following:

- Regulation 32: R12,263,742 . Expenditure was for electricity projects funded by the INEP Grant. Awards were made using Regulation 32 on the BAC of other organs of state. These awards did not have the SCM practitioner and the BAC committee did not contain at least four senior managers, resulting in the expenditure being classed as irregular. The contracts are currently being investigated by MPAC

- An amount of R10, 909,106 for 2017 was written off by Council in August 2018.

- Irregular expenditure for 2019 relates to variation order: The scope of work was increased without proper variation order processes.

45. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	-	-
Current year subscription / fee	4 864 437	4 522 451
Amount paid - current year	(4 864 437)	(4 522 451)
Amount paid - previous years	-	-
	-	**-**

PAYE and UIF

Opening balance	-	-
Current year subscription / fee	10 927 483	9 536 605
Amount paid - current year	(10 927 483)	(9 536 605)
Amount paid - previous years	-	-
	-	**-**

Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	11 076 393	10 230 520
Amount paid - current year	(11 076 393)	(10 230 520)
Amount paid - previous years	-	-
	-	**-**

VAT

VAT receivable	1 791 351	4 300 480

VAT output payables and VAT input receivables are shown in note 8.

Councillors' arrear consumer accounts

There were no Councillors who had arrear accounts outstanding for more than 90 days at 30 June 2019:

Supply chain management regulations: Deviations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been approved.

Incident		
Sole provider	190 118	1 394 406
Impractical	3 006 012	853 435
Manufacturer	-	1 190 169
Emergency	52 339	-
	3 248 469	**3 438 010**

46. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment
Recoverable amounts of property, plant and equipment
Provision for doubtful debts
The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets.
Provisions for doubtful debts.

47. Change in estimate

Property, plant and equipment

The useful life of certain items of property, plant and equipment which were fully depreciated at year end was reetimated. The change in the estimated useful life resulted in a decreased depreciation in the current year as follows:

Computer Equipment R51 014

Furniture and office equipment R868

Transport assets R15 449

Machinery and Equipment R96 829

48. Budget differences

Material differences between budget and actual amounts

A1: Interest earned on debtors was not budgeted for.

A2: Less revenue was collected as a result of staff shortages at traffic department and system downtime.

A3: Less revenue collected as a cell c lease pole rental is no longer paid to the Municipality account.

A4: Less interest was earned due to withdrawals made from investment accounts.

A5: Less revenue collected due to ratepayers’ disputes relating to valuation roll market values.

A6: Variance is caused by the withdrawal from investments in prior year that were going to fund projects rolled over to the current year.

A7: Less revenue was collected as a result of staff shortages and lack of resources in traffic department.

A8: Increased due to appointments made during the year including senior managers as well as non cash item (Provision for leave, long service award actuaries).

48. Budget differences (continued)

A9: Variance is caused by projects that were not depreciated during year because they were still under work in progress.

A9: The budget for impairment is under depreciation & asset impairment on the budget document.

A10: Includes electrification expenditure which is budgeted under capital expenditure.

A11: Variance is due to the fact that loss on disposal of assets was not anticipated.

A12: Variance is due to the fact that actuarial loss was not anticipated.

A13: Variance is caused by the electrification expenditure transfered to operational expenditure, construction of Municipal offices not done due to delays in designs. Phase 2 taxi rank not done due to CHDM allocation not received for the project to proceed.